Fitch Ratings

Tagging Info

Fitch Rates Bloomington, MN's GOs 'AAA'; Outlook Stable Ratings Endorsement Policy

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Fitch Ratings-New York-13 November 2014: Fitch Ratings assigns an 'AAA' rating to the following Bloomington, MN (the city) general obligation (GO) bonds:

--$7.685 million GO permanent improvement revolving fund and refunding bonds of 2014, series 48.

The bonds are expected to sell via competitive sale on Nov. 17, 2014. Proceeds will be used for various capital improvement projects and to refund outstanding bonds.

In addition, Fitch affirms the following ratings:

--$54 million city GO bonds at 'AAA'.

The Rating Outlook is Stable.

SECURITY

The bonds are unlimited tax general obligations of the city for which the city pledges its full faith and credit and power to levy direct general ad valorem taxes.

KEY RATING DRIVERS

FINANCIAL STABILITY: The city benefits from strong financial practices reflected by its sophisticated, proactive financial planning, above-average reserves, and consistent financial operations.

THRIVING MALL ANCHORS ECONOMY: The local economy, anchored by the large and healthy Mall of America (MOA), is prosperous with below average unemployment levels and high wealth levels.

MODERATE DEBT LEVELS: Debt levels are affordable and future capital needs are manageable.

RATING SENSITIVITIES

FUNDAMENTAL CHANGES: The rating is sensitive to shifts in fundamental credit characteristics including the city's strong financial management practices. The Stable Outlook reflects Fitch's expectation that such shifts are highly unlikely.

CREDIT PROFILE

Bloomington is located in Hennepin County (GO bonds rated 'AAA', Stable Outlook by Fitch), approximately 11 miles from Minneapolis, and is home to the MOA, the largest shopping center and entertainment complex in the United States.

DIVERSIFIED ECONOMY WITH STRONG SOCIOECONOMIC FUNDAMENTALS

Bloomington had a 2013 population of 86,319 residents. In addition to participating in the expansive Twin Cities metropolitan economy, the city's own economic base is broad and includes a mix of industry, including large technology, healthcare, and manufacturing concerns. Unemployment for August 2014 was a very low 3.7%, below the state average of 3.8% and well below the nation's 6.3% average. Wealth indicators and taxable market values per capita are well above average. After several years of declines, taxable value was up 9.8% in the most recent year and is expected to continue to increase as a result of growth in home values and extensive construction activity.

The mall makes up over 10% of the city's total assessed value. The city continues to experience growth centered around the mall, with substantial expansion projects complementing MOA's continued robust occupancy and sales performance. The city does not receive sales tax revenue from MOA, but the mall is the largest employer in the city, supplying approximately 13,000 jobs. The city is also home to more hotel rooms than Minneapolis and St. Paul combined, with more hotels now under construction.

CONSISTENTLY STRONG FINANCIAL PERFORMANCE

The combination of historically strong economic indicators and manageable budgetary increases has contributed to a strong financial position. Property taxes accounted for almost two-thirds of general fund operating support in 2013. A lodging tax, permit fees and an admission tax are other key revenue sources for the city. Overall, the measured pace of budgetary expansion combined with the discretionary nature of significant portions of the budget and maintenance of ample reserves provides the city with considerable financial flexibility.

The city posted a $223,000 general fund surplus (0.4% of expenditures) for 2013. The city's unrestricted general fund balance was a substantial $20.9 million, representing 34.5% of expenditures and transfers out. City officials project another similar operating surplus for 2014, primarily through cost-savings measures and diligent budget monitoring as well as strong results for building permits and the lodging tax. The city's preliminary budget for 2015 is balanced and includes a 4% increase in the property tax levy.

MANAGEABLE DEBT LEVELS AND CARRYING COSTS

Moderate debt ratios are a product of high internal funding for capital projects. Overall debt levels are 2.5% of market value or $2,811 on a per capita basis. Payout is well above average with approximately 91% of debt retired within 10 years. Additional debt plans are moderate.

The city participates in two state pension plans for all employees except volunteer firefighters, for whom the city has a single-employer plan. The city makes all statutorily required payments to the state plans, which are approximately 63% and 70% funded using Fitch's 7% return assumption. Fitch believes the city has sufficient financial flexibility to manage increased payments that could be required to improve the plans' currently average to below average funding levels. The city's fire plan is currently 125% funded assuming a 7% return, with additional funds set aside for future contributions. The city provides only an implicit subsidy for other post-employment benefits (OPEB) for retirees. Total carrying costs for debt, pensions and OPEB are a moderate 16% of government fund expenditures.

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In addition to the sources of information identified in Fitch's Tax-Supported Rating Criteria, this action was additionally informed by information from Creditscope, University Financial Associates, S&P/Case-Shiller Home Price Index, IHS Global Insight, Zillow.com, National Association of Realtors.

Applicable Criteria and Related Research:
--'Tax-Supported Rating Criteria', dated Aug. 14, 2012;
--'U.S. Local Government Tax-Supported Rating Criteria', dated Aug. 14, 2012.

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Tax-Supported Rating Criteria
U.S. Local Government Tax-Supported Rating Criteria

Additional Disclosure
Solicitation Status